

Manitoba Securities Commision



THE MANITOBA

SECURITIES

COMMISSION

Annual Report 2001



MANITOBA SECURITIES COMMISSION

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LETTERS OF TRANSMITTAL



**Minister of
Consumer and Corporate Affairs**

Legislative Building
Winnipeg, Manitoba, CANADA
R3C 0V8

The Honourable Peter M. Liba, C.M.
Lieutenant Governor of Manitoba
Room 235, Legislative Building
Winnipeg, Manitoba
R3C 0V8

May it Please Your Honour:

I have the privilege of presenting for the information of Your Honour the Second Annual Report of The Manitoba Securities Commission for the fiscal year ended March 31, 2001.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Scott Smith".

Honourable Scott Smith
Minister





THE MANITOBA
SECURITIES
COMMISSION

Honourable Scott Smith
Minister of Consumer and Corporate Affairs
Room 314 Legislative Building
Winnipeg, Manitoba
R3C 0V8

Dear Mr. Minister:

I have the honour to submit for your consideration the Second Annual Report of The Manitoba Securities Commission for the fiscal year ended March 31, 2001.

Respectfully submitted,

Donald G. Murray
Chairman
The Manitoba Securities Commission



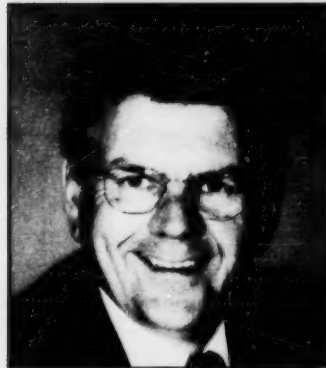
Donald G. Murray
Chairman and C.E.O



Douglas R. Brown
Director Legal and
Enforcement and Secretary
to the Commission



James W. Storsley
Registrar, Real Estate



Bob Bouchard
Director Corporate
Finance, Chief
Administrative Officer



Standing:

Sally Sitarz, Rosy Dizon, Ainsley Cunningham, Shantel Lysak, Liz Klippenstein, Anita Duggan, Kim Laycock, Renuka Raviraj and Teresa Sigurdson.

Sitting:

Marlene Nemes, Chris Besko, Lorraine Crowter, Wayne Bridgeman and Chris Kowalski.

Not in photograph:

John Hudohomet, Jason Roy, Jan Banasiak, Marc Boily, Kelly Laforte, Cindy Olson, Mary Loepp, Terri Pettinger, Isilda Tavares, Nancy Martin, Bev Berzuk, Claudette Richard, Pat Johnston, Keith Schinkel, Bill Baluk, Adrian Denegar, Cathy Phillips, Sue Henderson and Glenn Lillies.

REPORT FROM THE CHAIR

The Commission continues to evolve in a changing marketplace while responding to increased demand for its services.

ON-GOING PROGRAMS

The continuing trend to globalization and the proliferation of new investment vehicles and processes serves to increase the importance of public education. The Commission believes that an informed investor is a protected investor. Our educational initiatives for the investing public have expanded over the last fiscal year. The Commission's public presentations and special events have been well attended and judging by feedback, well received. We plan to continue the development and expansion of our educational/informational programs both for the public and the industry.

Our audit program went into its first full year of operation in fiscal year 2000/01. The goal of the Commission was to complete the compliance audit of each Manitoba-based mutual fund dealer by year end and this was achieved. Field audits are an important part of proactive regulation and have been seen by dealers as beneficial both to the industry and the investing public.

The Commission has continued the development of its website. The site provides information on investor education, lists those registered to sell securities in Manitoba, sets out disciplinary information and provides valuable links to other important sites. The public use of our website continues to rise with an increase in monthly "hits" from below 10,000 in April 2000 to over 25,000 in March 2001.

RECENT DEVELOPMENTS

In fiscal year 2000/01 the Winnipeg Stock Exchange formally merged with the Canadian Venture Exchange with an office of CDNX opening in Winnipeg in November 2000. In preparation for

this the Commission cooperated with the British Columbia Securities Commission and the Alberta Securities Commission to develop a regulatory regime for the Manitoba operations of CDNX.

During the past year Commission staff together with staff of the Winnipeg Commodity Exchange (WCE) developed trading rules and a registration system for the WCE. Initial registration of exchange operatives has been completed. Finally, as at March 31, 2001, the Commission had recommended to the government that it consider the Exchange's request for legislation to allow it to demutualize. The Winnipeg Commodity Exchange believes demutualization is necessary to allow the Exchange to pursue its long term goals and enhance its viability and the Commission will continue to work with the Exchange as it proceeds with this initiative.

NATIONAL INITIATIVES

The trend toward globalization requires an increased level of cooperation among securities regulators. The Commission continues to work with other members of the Canadian Securities Administrators (CSA) in developing the Canadian Securities Regulatory System based on mutual reliance and harmonization. Significant work was accomplished in this fiscal year toward the implementation of internet systems for registration (NRD) and insider trading (SEDI).

The Commission continues to work on national initiatives including a restatement of the rules for mutual fund management and marketing. Also fiscal year 2000/01 has seen the Commission participate in a number of multi-jurisdictional hearings and assist in the development of a protocol for future hearings.

REAL ESTATE

The Registrar and his staff continue to perform an exemplary job of industry regulation, including registration, audit and compliance as well as playing the role of partner with industry practitioners and their Associations in the development of rules, policies, courses and new initiatives. In fiscal year 2000/01 the Registrar and staff of the Real Estate section cooperated with the Manitoba Real Estate Association in developing a Mandatory Continuing Education program for industry practitioners for scheduled implementation as of April 1, 2001.

The Real Estate section of the Commission has developed and maintains a positive relationship with the industry.

ADVISORY COMMITTEES AND FOCUS GROUPS

It is important to acknowledge the great deal of hard and valuable work volunteered by the members making up the advisory committees in both areas of securities and real estate (noted on pages 11 and 12). The continued input and assistance of these individual members is of great importance to the Commission.

COMMISSION MEMBERS

There were no changes to the Commission membership this year. Sincere thanks are due to the six part time Commissioners for their continued efforts in the conduct of regular and special meetings and hearings. Their knowledge of the securities and real estate industries, developed through their individual professional endeavors and their commitment to the job at hand is essential to the fulfillment of the Commission's mandate.

COMMISSION STAFF

Fiscal year 2000/01 has seen an increase in all aspects of the Commission's activities. Filings and registrations as well as complaints were all up from the previous year. The Commission's regulatory scope increased with oversight of the WCE. Our participation in national initiatives and committees has expanded and our commitment to increased educational service to the public has resulted in the establishment of new programs and activities. It is necessary to give credit where credit is due. Our dedicated staff have risen to the challenge of an increased workload while at the same time volunteering to support new programs, taking additional training and contributing to planning the future direction of the Commission.

Any success the Commission has enjoyed is due to their efforts.

Donald G. Murray

Chair

Manitoba Securities Commission

July 25, 2001

PART 1 COMMISSION OVERVIEW

The Manitoba Securities Commission ("the Commission") is responsible for administering and enforcing The Securities Act, The Real Estate Brokers Act, The Mortgage Dealers Act and The Commodity Futures Act. The Commission was structured in its present form in 1968 as set out in The Securities Act. The Commission became a Special Operating Agency on April 1, 1999.

The Commission consists of a maximum of seven order-in-council appointments. Commission members meet regularly (usually weekly) to deal with policy and regulatory formulation, applications seeking exemptions from the requirements of regulation, and to consider whether it is in the public interest to grant various types of orders authorized by legislation. Commission members also perform a quasi-judicial function by sitting as adjudicators in Commission hearings.

The administrative arm of the Commission is made up of full time employees who conduct the day-to-day operations. The functional arm of the Commission is comprised of two operating divisions: the Securities division and the Real Estate division.

The Chairman conducts meetings of Commission members and in many cases sits as adjudicator on hearings. The Chairman is the Chief Executive Officer of the functional arm of the Commission. An executive management committee meets regularly at the call of the Chairman to provide management direction. The management committee is comprised of the Chairman, the Director of Capital Markets and Chief Administrative Officer, and the Director of Legal & Enforcement and Secretary to the Commission. In addition, the Commission has formed an extended management committee which receives input from staff members of all functional areas of the Commission.

The Chairman of the Commission reports to the legislature through the Minister of Consumer and Corporate Affairs.

MISSION

The mission of The Manitoba Securities Commission is to protect and promote the public interest by facilitating dynamic and competitive capital and real estate markets that contribute to the economic development of Manitoba while fostering public confidence in those markets.

MANDATE

The mandate of the Commission is to act in the public interest to protect Manitoba investors and to facilitate the raising of capital while maintaining fairness and integrity in the securities marketplace. Similarly, its real estate industry mandate is to regulate brokers, salespeople and mortgage dealers to ensure adequate standards are maintained for the protection of the public.

The Commission is able to fulfill both the mission and the mandate through functions that are performed in the following seven areas:

Registration – The Commission processes and evaluates applications for registration to permit individuals and companies to sell securities, commodities contracts and real estate or to deal in mortgages. In addition the Commission sets standards of conduct required for persons and companies to maintain registration.

Corporate Finance and Continuous Disclosure – The filing of prospectuses, financial statements, insider reports and other filings made by public companies with the Commission is intended to provide the public with the information necessary to make informed investment decisions. The Commission sets standards for public filings and monitors what is filed. The Commission can also issue cease trade orders in the event a public company fails to file any documentation required.

Private Placement and Exempt Offerings

In many situations securities may be traded to the public without a prospectus and sold without the salesperson being registered with the Commission. The Securities Act, regulations and rules describe how and when these exemptions are available.

Exemptions and Orders – The Commission receives and processes applications for exemptions from one or more of the requirements of securities regulation. As the number and variety of securities products and organizations trading in securities increases, the Commission issues exemption orders to ensure the public is not denied access to new products and services.

Legislation and Policy Development – The Commission is responsible for the development and implementation of policies and rules. The Commission also advises government on legislative changes. Commission staff work with industry representatives, government agencies, advisory groups and other securities regulators to coordinate and develop policies and rules. Commission members are responsible to review and determine whether a proposed policy, rule or legislation is in the public interest and consistent with the mandate of the Commission.

Investigation and Enforcement – In order to ensure public confidence in securities and real estate markets it is necessary to have an effective system to investigate possible violations and to enforce the legal requirements set out in legislation and regulation. Commission staff review and investigate complaints alleging improper and illegal activities. The Commission also conducts proactive compliance reviews to identify potential problems before the public is harmed. Commission staff also prepare and present cases at hearings before the Commission and in prosecutions in court.

Education and Information – Providing educational information to both the investing public and individuals working within industries regulated by the Commission is an effective way to encourage compliance with the requirements of regulation. Members of the public who are informed are less likely to fall victim to illegal activities and more likely to understand their rights.

COMMISSION MEMBERS

Donald G. Murray (Chair) - Appointed to the Commission in 1993, Mr. Murray spent 20 years in the private practice of law. In 1994, he was appointed Vice Chairman and became Chairman in 1997. As Chair and CEO, Mr. Murray represents the Commission on national and international securities organizations.

Elmer O. E. Bergman - Appointed to the Commission in 1990, Mr. Bergman has a Bachelor of Commerce and Chartered Accountant designation. He retired from KPMG as a partner of the firm. Prior to KPMG, Mr. Bergman was the office-managing partner in Winnipeg with Thorne Ernst & Whinney. Mr. Bergman was active in the securities areas and also acted as an advisor for utility rate-making for the Public Utilities Board.

W. John A. Bulman C.M. - Appointed to the Commission in 1994, Mr. Bulman spent most of his business career in the printing industry. He is an active community leader especially with health and education groups. He is currently Chancellor Emeritus of the University of Winnipeg and a council member of the Royal College of Physicians and Surgeons. Mr. Bulman was appointed to the Order of Canada in 1999.

Melvin S. Fages - Appointed to the Commission in 1997, upon retiring from Deloitte & Touche, Chartered Accountants. Mr. Fages received his F.C.A. designation in 1997. Currently, he is the Vice-President of the Long Term Care Association of Manitoba, Treasurer of the Jewish Foundation of Manitoba and a Board Member of the Alzheimer Society of Manitoba.

Ken S. Kristjanson - Appointed to the Commission in March 1999, Mr. Kristjanson has 40 years experience in the financial services industry, the last 30 years being spent as a full-service broker. He retired from Richardson Greenshields where he held the position of Vice-President. He is Vice-Chairman of the Canada-Iceland Foundation.

Lynne M. McCarthy - Appointed to the Commission in 1994, Ms. McCarthy has a Master of Business Administration degree from the University of Western Ontario and the Chartered Financial Analyst designation. Ms. McCarthy has had 19 years of experience in institutional investing.

Robert G. McEwen - Appointed to the Commission in 1992, Mr. McEwen is a retired chartered accountant and was a Deputy Director of the Commission.

Meeting & Hearings	2000/2001
Commission Meetings	47
<i>Under The Securities Act</i>	
Special Meetings	35
Hearings	
One-day hearings	4
Two-day hearings	1
Three-day hearings	1
<i>Under The Real Estate Brokers Act</i>	
Special Meetings	7
Hearings	
Four-day hearings	1
Three-day hearings	1
<i>Under The Commodity Futures Act</i>	
Special Meetings	1
Totals	98

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ADVISORY COMMITTEES AND FOCUS GROUPS

SECURITIES ADVISORY COMMITTEE

The Committee was established by the Chair of the Commission to meet when required to provide advice on regulatory matters. The Committee has provided advice on new policy initiatives developed by the Commission. The Committee has also been called upon to advise on changes within the industry and how the Commission can best deal with those changes.

Dave Cheop, Investors Group Inc.

Ken Cooper, Winnipeg Stock Exchange

Ben Corn, Winnipeg Commodity Exchange

Ed Griffith, Scotia McLeod / Investment Dealers Assoc.

Mike Guttormson, Aikins, MacAulay & Thorvaldson

Bruce Jack, Deloitte & Touche

Tom Kormylo, Pitblado Buchwald Asper

Mel MacRae, Rice Financial Group Inc.

Lloyd Thomas, PricewaterhouseCoopers

Greg Bieber, Bieber Securities Inc./ Investment Dealers Assoc.

Dave Phillips, Investment Dealers Assoc. (Alt.)

Tom Rice, Rice Financial Group Inc. (Alt.)

Bruce Thompson, Thompson Dorfman Sweatman (Alt.)

REAL ESTATE ADVISORY COUNCIL

The Real Estate Advisory Council is a non-statutory advisory body established by the Commission and The Manitoba Real Estate Association. The Mandate of the Council is to advise and make recommendations to the Commission and MREA on real estate issues; to review mutually beneficial ideas, policies or legislative reform; and give early warning or advance notice to the Commission of trends or developments arising in the real estate industry.

Edward Brown, Pitblado Buchwald Asper

Brian Collie, The Manitoba Real Estate Association

John Froese, Homelife Properties Inc.

Guy Hobman, Greentree Homes (Winnipeg) Ltd.

Brad Munn, Martin Liberty Realty Ltd.

Rick Preston, Royal LePage Real Estate Services

Jim Storsley, The Manitoba Securities Commission

Derek Thorvaldson, Remax Real Estate Inc.

Brad Walker, Gill & Schmall Agencies

Claude Davis, Royal LePage Real Estate Services

Cliff King, Century 21 Bachman & Associates

REAL ESTATE ADVISORY COMMITTEE

The Real Estate Advisory Committee was established by the Real Estate Advisory Committee Regulation (Manitoba Regulation 593/88) under The Real Estate Brokers Act.

The Committee reviews and recommends projects to the Commission for funding from the interest which the Commission receives from real estate brokers' trust accounts.

The Real Estate Brokers Act and Manitoba Regulation 593/88 describe the types of projects that the Commission may approve for funding:

- Educational programs relating to the real estate industry and the objectives of the Act;
- Not-for-profit initiatives to promote affordable home ownership and area revitalization;
- Real estate research and legislative reform;
- The study and improvement of real estate business practice; and
- Other projects designed to further the objectives of the Act.

Recommendations for funding are made to the Commission through the Registrar of The Real Estate Brokers Act.

W.G. Burns, Chairman, Broker, Royal LePage Real Estate Services

John Froese, Broker, HomeLife /Properties Inc.

Florence M. Zawadsky, Broker, Martin Liberty Realty, Brandon

Susan Enns, Salesperson, Royal LePage Real Estate Services

Robert B. Giesbrecht, Solicitor, Public Representative

EDUCATION FOCUS GROUP

The committee was established by the Education and Information Coordinator of the Commission. The committee meets when required to advise Commission staff on ways the Commission can better communicate and work with industry and the public in a manner that advances the mandate of the Commission.

Dave Cheop, Investors Group Inc.

Alf Chorney, Canadian Association of Retired Persons

Daryl Diamond, IQUON Financial Inc.

Pat Dumont, Junior Achievement of Canada

Shaun Humphries, AQ Fund Management Inc.

Gene Sobie, Rice Financial Group Inc.

Andrew Suthern, Wright Financial Planning Group Inc.

REGULATORY ASSOCIATIONS

The Commission is a member of the following Regulatory Associations.

Canadian Securities Administrators (CSA)

The CSA deals with regulatory issues of common interest and has proceeded with numerous public initiatives designed to establish the Canadian Securities Regulatory System.

North American Securities Administrators Association (NASAA)

Comprised of Securities Regulators from Canada, the United States, Mexico and Puerto Rico. NASAA provides a forum for discussion of regulatory issues, as well as providing professional development courses for Commission staff.

The Association of Real Estate License Law Officials (ARELLO)

The primary purpose of ARELLO is the better administration and enforcement of real estate license and regulatory laws achieved by ARELLO, and providing its members with opportunities for professional improvement.

PART II SECURITIES

OVERVIEW

The mission and goals of the Commission are supported by the following core values:

- ▶ Provide strong management to ensure regulatory effectiveness, control and accountability;
- ▶ Strive to use current technologies as an innovative approach to meet market expectations;
- ▶ Promote continuous learning, teamwork, service, market innovations and performance improvement; and
- ▶ Provide service excellence to clients at reasonable prices.

The operations of the Securities division of the Commission can be divided into the seven functional areas noted above (page. 8 and 9). Although each functional area has unique duties and responsibilities, the complex nature of many securities regulations requires a high degree of cooperation and coordination between functional areas. Cooperation between these areas is also essential for the Commission to achieve its core values in an increasingly complex and rapidly changing industry.

REGISTRATION

The Registration section reviews and determines whether it is in the public interest to register a person or company to trade or advise in securities or commodity exchange contracts. Applicants for registration must meet educational requirements, individuals must be supervised and companies must meet capital requirements.

COMPLIANCE EXAMINATION

The Registration section also performs an ongoing compliance function to insure that the continued registration of persons and companies is in the public interest. The Commission monitors the conduct and solvency of registrants to insure compliance with legislation, rules and policies. This is done through the review of financial reports submitted by registrants and by performing compliance examinations of registrants. The focus of these examinations is on Manitoba-based mutual fund dealers and investment counsel and portfolio managers. During the fiscal period, fifteen examinations of mutual fund dealers were performed.

NATIONAL REGISTRATION DATABASE

The Canadian Securities Administrators (CSA) is taking steps to simplify the registration process by developing the National Registration Database (NRD). The NRD will contain information on registrants across Canada and will provide public access to portions of this information. The NRD will also permit an application for registration to be made to all or multiple jurisdictions by way of a single electronic application. The Commission is participating in development of the NRD and anticipates it will be operating in 2002.

MUTUAL RELIANCE REVIEW SYSTEM (MRRS) FOR REGISTRATIONS

The Commission is also actively involved in the CSA initiative to develop a mutual reliance system for the review of registration applications. Similar to systems in place for prospectus reviews and the processing of applications for exemptions from regulatory requirements, the MRRS system will permit an applicant for registration under securities and commodities legislation to deal with a single Canadian regulatory authority (the "principal jurisdiction"). The principal jurisdiction would then conduct the primary review of the application and coordinate the processing of the application with other jurisdictions where registration is sought.

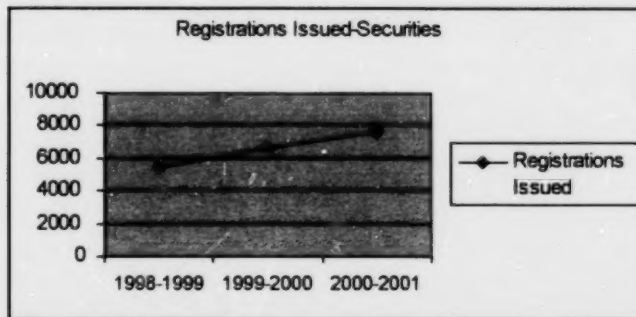


REGISTRATIONS UNDER THE SECURITIES ACT

At the end of the year 2000/01 there were 7626 registrations issued, including Broker Registrations/Renewals, Individual Registrations/Renewals, Branch Managers and Trading Officials registrations. Also, 540 Branch Offices were registered by the end of the year.

A total of 1303 Broker Amendments under The Securities Act were processed which includes the addition or deletion of branch offices, branch managers, trading officials and non-trading officials.

At the end of the year 2000/01, 494 Transfer of Registration certificates were issued.



REGISTRATIONS UNDER THE COMMODITY FUTURES ACT

In February, 2000 the Commission became responsible for the administration of The Commodity Futures Act. The Commission is responsible for registering all dealers and advisors and salespeople who trade on exchanges in commodity futures contracts and options in Manitoba. The staff have been actively involved in assisting the futures industry in its transition to the

requirements of the new Act, which included the development of registration guidelines, the development and implementation of a Commodities Registration System, and the reviewing and approving of Applications for Registration.

The total number of exemption applications and registrations issued under The Commodity Futures Act to the end of the fiscal year 2000/01 are as follows:

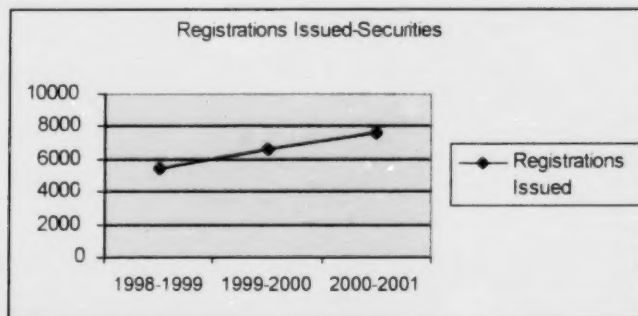
REGISTRATIONS ISSUED	2000/2001	1999/2000
Dealer-Floor Broker	15	0
Dealer-Future Commission Merchants	15	0
Dealer-Merchant	7	0
Dealer-Officer/Partner	42	0
Dealer-Salesperson	78	0
Dealer-Floor Trader	16	0
Adviser	2	0
Adviser-Officer Partner	3	0
TOTALS	178	0

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REGISTRATIONS ISSUED	2000/2001	1999/2000
Dealer-Floor Broker	15	0
Dealer-Future Commission Merchants	15	0
Dealer-Merchant	7	0
Dealer-Officer/Partner	42	0
Dealer-Salesperson	78	0
Dealer-Floor Trader	16	0
Adviser	2	0
Adviser-Officer/Partner	3	0
TOTALS	178	0

At the end of the year 2000/01 there were 178 registrations issued, which included Dealer and Adviser registrations. Also, 8 Branch Offices were registered to the end of the year.

A total of 2 Exemption Applications and 1 Investigation Order under The Commodity Futures Act were processed.

CORPORATE FINANCE AND CONTINUOUS DISCLOSURE

Commission staff review prospectus filings and certain other offering documents to ensure that they contain full, true and plain disclosure of all material facts that are necessary to make an informed investment decision. Public companies are also required to file documents such as financial statements, insider reports, reports of material changes and proxy materials with the Commission.

The Commission monitors these filings as well as other offering and reporting documents required to be filed by legislation or regulation.

	Prospectus*	Prospectus Amendments	Annual Information Forms	Rights Offerings	Take-Over Bid Circulars
1998/1999	456	78	490	18	93
1999/2000	771	138	509	21	110
2000/2001	668	207	591	18	114

* - Prospectus documents filed – (A single prospectus filing may contain multiple issues (i.e.: a single mutual fund prospectus could contain as many as 50 funds).

MUTUAL RELIANCE REVIEW SYSTEM FOR PROSPECTUSES AND ANNUAL INFORMATION FORMS

The Mutual Reliance Review System for Prospectus and Annual Information Forms was implemented in late fiscal 1999/2000. During 2000 and 2001, Commission staff, along with staff of other members of the CSA have continued to develop and refine the MRRS Policy for the review of prospectuses and annual information forms in a MRRS environment. Under MRRS, Canadian Securities Regulators co-operate to enable filers to deal with only their home jurisdiction, rather than each jurisdiction separately.

SEDAR

The System for Electronic Document Analysis and Retrieval (SEDAR) has been used since January 1, 1997 to electronically file securities-related information with the Commission and other CSA jurisdictions. SEDAR allows documents to be filed with all regulators simultaneously and provides for secure electronic communication between filers and regulators. The website www.SEDAR.com gives access to public SEDAR information to anyone with access to the Internet.

SEDAR R6 supports Windows NT, Windows 95 and Windows 98, and the screens have a look and feel similar to other applications running under these platforms. All documents filed with SEDAR must use ADOBE PDF format to make it easier for filers to submit information and easier reading for the public. SEDAR R6 implemented changes to the system to accommodate the Mutual Reliance Review System (MRRS) and National Instrument 81-101, resulting in new fields, new formal correspondence types, new filing types and new document types.

New filing types for the MSC and the Winnipeg Stock Exchange (WSE) were added to facilitate joint filing with the MSC and WSE. Nunavut, a new recipient agency was also added.

SEDAR Release 7 (SEDAR R7) will be introduced in September 2001.

PRIVATE PLACEMENT & EXEMPT OFFERINGS

The Commission recognizes the benefit to the Manitoba economy and the public in providing an environment that encourages the development of business and the need of those businesses to raise capital. Where the size of the business or the amount of capital to be raised does not warrant the use of a prospectus, securities regulation provides ways to assist businesses and make new offerings of securities available to Manitobans.

The Act, regulations and rules provide exemptions from the requirement to use a prospectus and the requirement to trade in securities through someone registered under The Securities Act. They are based on the nature of the security sold, the dollar amount of the purchase, as well as the knowledge of the purchaser. Limited offering exemptions are based on an offering of securities being made to a limited, identifiable group of purchasers, and are used by new businesses that need capital to establish operations. Purchasers of securities in limited offering exemptions either have knowledge of the business they are investing in or are required to seek independent advice with respect to the investment prior to purchase.

Private Placement Filing	'00/'01	'99/'00	'98/'99
Private Placements	133	150	156
Limited Offerings	56	53	39

EXEMPTIONS AND ORDERS

EXEMPTION APPLICATIONS

Applications are made to the Commission for exemptions from regulatory requirements in situations where the granting of an order is not contrary to the public interest. The Commission deals with national applications and local applications.

NATIONAL AND REGIONAL APPLICATIONS

The Commission processes national and regional applications through the Mutual Reliance Review System for Exemptive Relief Applications system created by the Canadian Securities Administrators as part of the Canadian Regulatory System. Prior to the system, access to Commission orders required an applicant to make separate applications to each securities regulatory authority. Under the new system, a single application can be processed in several jurisdictions with a single decision document evidencing the decision of the regulatory authorities.

The greater efficiency created by the system has resulted in an increased number of applications filed in Manitoba. The system benefits applicants who intend to offer securities to the public across the country and results in more products being offered to the public in Manitoba.

MANITOBA APPLICATIONS

Applications for exemptions from regulatory requirements by Manitoba companies and issuers include exemptions from requirements when

Manitoba legislation differs from one or more of the other Canadian jurisdictions, as well as applications required to facilitate capital raising projects within the province.

The Commission continues to be supportive of local community based projects. These projects created by a community or local business group provide a benefit to a local community. Orders have been granted by the Commission to local groups to raise capital for the construction of various agricultural facilities as well as commercial ventures such as hotels. Although the Commission does not create business plans or proposals to support local projects, they do work closely with applicants to ensure each group has the tools required to raise capital in a manner that does not compromise the investor protection objectives of securities regulation.

The Commission also continues to monitor applications filed for exemptions from regulatory requirements, and determine what changes should be made to legislation, regulation, policy and rules. The increasing number and types of products being offered to the public, as well as changes in how products are distributed to the public arising from matters such as the restructuring of Canadian stock exchanges, have resulted in a need to ensure regulatory requirements continue to provide a sufficient level of investor protection without imposing unnecessary barriers to raising capital.

The total number of orders issued under The Securities Act for fiscal 2000/01 are as follows:

ORDERS ISSUED	2000/2001	1999/2000	1998/1999
Exemption Orders	356	267	177
Take-Over Bid Orders	114	181	21
Inside Reporting Orders	40	37	23
Financial Reporting Orders	35	48	23
Cease Trade Orders*	64	29	143
Miscellaneous Orders	11	30	12

*Cease Trade Orders include both permanent and temporary orders.

LEGISLATION AND POLICY DEVELOPMENT

The development of the regulatory system is an ongoing process. Changes in products, market participants and technology have created a need to review existing regulations to determine when and if changes or new regulatory requirements are needed. It is necessary to ensure that any new or revised requirements do not inadvertently create barriers to market activity in Manitoba by imposing requirements that are inconsistent with other jurisdictions or the needs of Manitobans.

The Commission is actively involved in the development of the Canadian Securities Regulatory System through participation in the Canadian Securities Administrators. By establishing a system of regulatory requirements that is consistent across Canada, both issuers and the public benefit through wider access to securities markets.

Within Manitoba, the Commission in the past year finalized the registration requirements under The Commodity Futures Act. As the Winnipeg Commodity Exchange conducts business through members who are located throughout the world, the development of this rule is an example of the need to establish standards that meet and exceed those set by international organizations and foreign regulators.

Legislative and policy matters that were published for comment or adopted by the Commission during the past year are posted on the Commission's web site.

MUTUAL FUND RULE AND POLICY DEVELOPMENT

The Commission continues to participate in the development and implementation of a revised regulatory framework regarding the operation of mutual funds and the refinement of the mutual fund disclosure system. The mutual fund projects on which Manitoba is a participating jurisdiction include the following:

- Amendment to National Instruments 81-101 – Mutual Fund Prospectus Disclosure and National Instrument 81-102 – Mutual Funds, and their respective Companion Policies

and forms.

- Mutual Fund Governance project involving the development of a new regulatory framework for mutual funds.

- Amendments to National Instruments 81-101 and 102 regarding Fund of Funds.

- Development and near completion of National Instrument 81-104 - Commodity Pools.

- Development of a continuous disclosure rule and regime applicable to mutual funds.

- Integrated Disclosure System and Harmonized Continuous Disclosure Rule. Commission staff are fully participating in the development of the Integrated Disclosure System and the related Harmonized Continuous Disclosure Rule. In order to implement IDS, the CSA is developing a Harmonized Continuous Disclosure Rule, which will greatly benefit both members of the CSA, and reporting issuers across the country.

CORPORATE FINANCE ACCOUNTANTS PRACTICE MANUAL

Commission staff are working with CSA Chief Accountants and Corporate Finance Committee's project on the development of a Corporate Finance Accountants Practice manual. The manual will provide guidance on a national basis for accounting, auditing and financial disclosure matters.

CSA COMMITTEES

Commission staff participate on various CSA Committees and working groups. During 2000/01, the Commission was represented on the following committees:

Capital Markets

Corporate Finance

Enforcement

Executive Directors

Internet

Investor Education

Financial Planning

SEDAR Working Group

Take-over bids

Insider Trading Reporting System

Continuous Disclosure Review

MRRS for Prospectus Filings

Integrated Disclosure System

Mutual Funds

Corporate Finance Accountants' Manual

Exchange Restructuring

Legislative Coordination Committee

MRRS Applications

National Registration Data Base

INVESTIGATION AND ENFORCEMENT

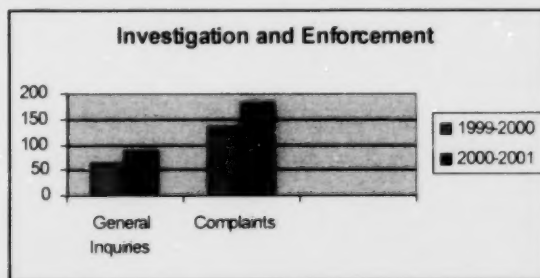
Staff of the Commission investigate complaints and inquiries from the public. A complaint may relate to the conduct of a person or company registered to trade in securities or may relate to trading activities of people not registered to trade securities in Manitoba. Complaints may also involve securities products that may or may not have been approved for trading in Manitoba.

As with any investigative agency, Commission staff must review all complaints received both on the basis of potential harm to the markets generally, and on the basis there may have been harm caused to an individual member of the public.

Many complaints can be resolved informally. Where a complaint is isolated in nature or relates to a service issue Commission staff will in many cases facilitate resolution of the complaint by speaking with both the securities firm and the client. In some cases, matters that relate to the conduct of a registrant and not a violation of securities laws are referred to a self-regulatory organization such as the Investment Dealers Association of Canada for investigation and resolution.

During the 2000/01 fiscal year, the Manitoba Securities Commission received 275 complaints.

Of the 275 complaints received, six were forwarded to the IDA for their follow up and 88 were general inquiries that did not proceed to any type of investigation. The Commission investigated a total of 181 complaints.



Compared to the previous fiscal year, there was an increase in both general inquiries and complaints that led to an investigation. General inquiries rose from 68 to 88 representing a 29% increase and investigated complaints rose from 133 to 181 which represented a 36% increase.

The ten most common areas of complaint:

- ▶ Trading without prospectus/registration (71)
- ▶ Discretionary trading (24)
- ▶ Improper handling of account (12)
- ▶ Trading without registration (10)
- ▶ Misrepresentations (9)
- ▶ Delay in transfer of account (8)
- ▶ Inappropriate investment (6)
- ▶ Alleged unregistered trading (6)
- ▶ Client's instructions not followed (5)
- ▶ Account complaint (3)

The above 10 areas of complaint account for 86% of the Commission's investigative inquiries.

Once an investigation is commenced Commission staff gather evidence through witness interviews and through the obtaining of documents. In situations where this evidence cannot be gathered voluntarily, the Commission can issue an order to compel the production of evidence during an investigation:

INVESTIGATION ORDERS ISSUED

Commission staff work with other regulators, law enforcement agencies and industry associations both in Canada and the United States to conduct investigations that involve activities that extend beyond Manitoba's borders. Cooperation with agencies outside of Manitoba is especially important when dealing with matters relating to

offerings made over the internet and through other electronic means.

Once a complaint has been investigated by Commission staff a determination is made whether there is sufficient evidence to justify holding a hearing before the Commission or a prosecution in court.

The Commission conducts hearings to determine whether it is in the public interest to suspend the registration of a person or company. Hearings are also held in situations where the conduct of a person or company that is not registered poses a risk to the public. In this situation an order can issue to deny the person or company the right to conduct an offering of securities without using the services of a registrant and filing a prospectus.

Staff of the Commission also act as Crown prosecutors in court for matters involving possible violations of a statute administered by the Commission. These cases are prosecuted in Provincial Court and can result in fines or imprisonment if the accused is found guilty.

The Commission will also issue an Investor Alert in situations where it is necessary to warn the public about activities which are illegal or that pose a risk to the public. An Investor Alert will be issued where the need to warn the public is urgent, even though there has not been sufficient time to assemble the evidence required to commence a Commission hearing or court prosecution. These Alerts are issued throughout Manitoba or in some cases are targeted to the specific areas that are directly affected by the activities in question.

Details of pending and completed Commission hearings and prosecutions are provided on the Commission's web site under the heading Investigation & Enforcement.

Investor Alerts are circulated to media outlets and the public through the Province of Manitoba Information Services and are posted on the Commission's web site under the heading *News Releases or Investor Alerts*.

	2000/2001	1999/2000	1998/1999
Investigation Orders	5	12	11

EDUCATION, INFORMATION AND COMMUNICATION

In rapidly changing financial markets, one of the key responsibilities of securities regulators is to provide educational programming to the public, industry and Commission staff. Resources have been made available to the education department to expand programming over previous years. Programs have been well attended and well received by both public and industry. The Commission believes that the best way for individuals to protect themselves is by becoming informed.

In order to address changing needs, the Commission will continue to focus its efforts on the following:

- ▶ Increasing public awareness as to the existence and function of the Commission
- ▶ Providing programming to meet the needs of the public and industry
- ▶ Increasing strategic partnerships with industry educational organizations
- ▶ Establish ties with the media as a means of getting information to the public in a quick and unbiased manner
- ▶ Work with other provincial regulators to increase investor knowledge on a national level
- ▶ Keep abreast of programming by working with national and international regulators

EDUCATION

CSA INVESTOR EDUCATION COMMITTEE

The Manitoba Securities Commission has taken an active role in promoting investor education on a National level. The Commission's Education and Information Coordinator sits on the Canadian Securities Administrators Investor Education committee and is actively involved in planning and implementing national initiatives. A three-year strategic plan was developed which guides the activities of the committee.

INVESTOR EDUCATION WEEK APRIL 2000

Nationally, the Manitoba Securities Commission participated in the development and funding of activities that were geared towards youth and seniors. Three sixty second commercials ran on the popular youth cable TV programs, Much Music/Musique Plus. The commercials focused on "What are your dreams?" and stressed the importance of starting a saving and investing program early on in life. Youth were encouraged to play the investing quiz on the Much Music/Musique Plus web site. The website contained additional information on the CSA and saving and investing.

A two-page advertorial was placed in the Canadian Association of Retired Persons seniors magazine which explored the concept of "Technology and the Capital Markets". The magazine had a penetration of 250,000 and was serialized on the Fifty-Plus web site for two years and is expected to receive 650,000 hits per month. The Committee also undertook a mid-season campaign. Six press releases were made available to the media. The press release topics were geared towards investors of all levels and were intended to raise awareness during RRSP season. All six releases were picked up on both national and local levels. Locally, the Commission hosted an evening of presentations at the Winnipeg Convention Centre which were offered free to the public. Two guest speakers delivered presentations on "How to Choose a Financial Advisor" and "Investment Fees". There were 110 people in attendance.

INFORMATION

WWW.MSC.GOV.MB.CA

The Commission added a "Junior Investor" section to the existing web site in April 2000. The section addresses saving and investing issues of particular importance to young people. In addition, there is material on the site to assist parents and teachers to teach children saving and investing concepts and strategies. Teachers can also find a comprehensive resource guide to help them with the planning and delivery of saving and investing programs in their classroom.

In February 2001 the entire site was redesigned to meet Manitoba Government guidelines. The changes were well received by both the public and industry. "Hits" on the site have increased steadily over the course of the last year from 9,300 in April 2000 to 27,602 in March 2001.

INFORMATION BROCHURES

During the 2000/01 fiscal year, the Commission produced four brochures, three for the Securities division and one for the Real Estate division. The brochures are an excellent resource and have been distributed during Investor Education Week, trade shows and public and industry presentations.

- ▶ Invest Time Before You Invest Money - Tips to follow when beginning an investing career;
- ▶ Public Inquiry and Complaint Process - Situations and solutions surrounding inquiries and complaints;
- ▶ A Guide for New Registrants - Information of particular importance to newly registered individuals; and
- ▶ Real Estate Inquiry and Complaint Procedures - Inquiry and Complaint processes within Real Estate.

Free copies of the brochures can be obtained by contacting the Commission at (204) 945-2548.

COMMUNICATION

TRADE SHOWS

One way to raise public awareness of the Commission and investing issues is to participate in trade shows. The Commission participated in public and industry trade shows in both Winnipeg and Brandon.

INDUSTRY PRESENTATIONS

The Commission remained active in bringing information sessions to industry participants. The Commission actively marketed presentations on the Investigation Process as well as the Audit Process. Presentations were conducted well into the fall of 2000. Approximately 350 people attended the presentations representing 20 industry organizations in the Province of Manitoba.

In March 2001 the Commission introduced a new presentation geared towards newly registered representatives. The presentation covered topics such as MFDA, best practices, salesperson's responsibilities, disclosure, holding out and compliance. The Commission offered three 2-hour sessions which were attended by approximately 100 new representatives. The presentation will be offered twice a year for all new registrants.

Staff of the Commission have made presentations to industry groups such as the Canadian Association of Financial Planners and the Canadian Association of Insurance and Financial Advisors. The Commission is committed to continually developing new material for industry participants.

PUBLIC PRESENTATIONS

In January 2001 the Commission launched a presentation for the general public on "Investment Scams: How to Recognize and Avoid Them." The Commission began by offering the presentation to seniors organizations in Winnipeg and surrounding areas. As of March 2001, 155 seniors had attended the presentation with another 100 registered to attend during the spring.

The Commission also partnered with Western Economic Diversification to present material to individuals interested in learning about the "Dos and Don'ts of Raising Equity."

SCHOOL PROGRAMS

The Commission partnered with Junior Achievement providing sponsorship funding as well as volunteer time to assist in the delivery of JA's Personal Economics course. Four staff from the Commission spent two days each working with a grade seven class at Munroe Junior High covering topics such as, Skill Development, Money Management, Personal Budgeting and Setting Financial Goals.

Legal staff from the Commission participated as guest lecturers and panel members for speaking engagements within the Faculty of Law at the University of Manitoba. The Commission has made a commitment to continue providing speakers for the Securities Law course that is offered at the University of Manitoba.

STAFF DEVELOPMENT

Commission staff continually strive to further both professional and personal skills. In addition to the Commission encouraging staff with education programming specific to their job staff participate in group programming. This year, Commission staff participated in workshops on conducting Effective Meetings and Performance Measurement.

PART III REAL ESTATE

OVERVIEW

The Real Estate division administers The Real Estate Brokers Act and The Mortgage Dealers Act. The Real Estate division is responsible for registering real estate brokers and salespersons and mortgage dealers, investigating complaints involving alleged violations by registrants, and providing public protection by maintaining and raising industry standards.

REGISTRATION

PRE-LICENSING EDUCATION

The pre-licensing education courses and exams for applicants are prescribed by the Commission and administered by The Manitoba Real Estate Association (MREA) on behalf of the Commission. Education standards are monitored and maintained through the Registrar who serves as a permanent member of MREA's Education and Examination Review Committees.

During 2000/2001 there was a total of 357 enrolments in the pre-licensing courses administered by the MREA.

In July 1995, the federal, provincial and territorial governments signed the Agreement on Internal Trade (AIT) to reduce interprovincial barriers to the movement of workers, goods, services and capital. Provincial licensing education was identified as a barrier to interprovincial trade in the real estate industry. Subsequent to signing of the AIT, The Canadian Real Estate Association through the Alliance for Canadian Real Estate Education (ACRE) undertook an extensive review of real estate education in Canada. This review culminated with creation of a National Code of Education in 1999 to facilitate recognition of licensing standards among the provinces and enable compliance with the AIT.

The Canadian Real Estate Regulators completed an Authorization Recognition Agreement (ARA) to facilitate interprovincial licensing under the labour mobility provisions of the AIT. The ARA was ratified by Alberta, Saskatchewan, Manitoba, Ontario and Nova Scotia in January 2001. The remaining jurisdictions were not prepared to sign the ARA for various reasons, either because legislative amendments were not enacted or their pre-licensing courses do not meet the standards of the National Code.

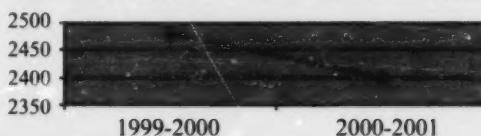
The Commission approved a mandatory continuing education program for real estate registrants proposed by the MREA to commence April 1st, 2001 that will require practitioners to complete six credit hours of continuing education annually to maintain their registration.

The MREA is completing final revisions to the broker's course and began creating a new course for property managers. The MREA is also creating an abridged course for broker applicants who do not have to take the full course by virtue of having completed comparable courses in other jurisdictions or who must re-qualify to re-enter the industry.

To the end of 2000/01 a total of 2398 certificates were issued for Salespeople, Authorized Official, Brokers and Mortgage Dealer Registrations/Renewals and 28 Branch Offices.

Numerous amendments involving name, address or corporate changes were processed under The Real Estate Act along with 29 Re-Instatements, 2 Exemptions and 135 salespersons transfers. A total of 20 Exams (1 Salesperson Exam, 4 Property Management Exams, 13 New Home Salesperson Exams, and 2 Private Sales Agent Exams) were administered by the Real Estate division.

REGISTRATIONS ISSUED—REAL ESTATE



COMPLIANCE AND AUDIT ENFORCEMENT

The compliance audit program of the Real Estate division consists of advising brokers on accounting and legislative requirements related to trust accounts and trust record keeping, reviewing brokers' trust account reports and dealers' financial statements filed annually with the Registrar, a program of field audits and follow-up field visits, and special audits for suspected trust account and trust records deficiencies.

Commission staff reviewed approximately 475 annual trust account reports and financial statements for registered brokers and dealers including 24 final audit reports for brokers who discontinued their operations. The Commission suspended 8 brokers for failing to file their annual trust account report on time.

INVESTIGATION AND ENFORCEMENT

The enforcement program addresses three main areas of investigation:

- ▶ Complaints alleging infractions under the statutes;
- ▶ The background and conduct of applicants; and
- ▶ Unregistered activity.

In addition to numerous verbal complaints and inquiries handled on a daily basis by the Real Estate division, 97 formal complaints were under investigation during 2000/2001. The investigation of 45 of these complaints is ongoing. Of the 52 completed investigations, 26 were found to be unsubstantiated or were resolved with the assistance of Commission staff; 20 resulted in a warning and/or reprimand; in 2 cases the registrant involved was required to take the relevant portion of the qualifying course; in 1 case a registrant was directed to correct a problematic form of lease agreement; 1 investigation resulted in a prosecution; and hearings were convened in connection with 2 complaints.

To the end of the fiscal year 2000/01, orders were processed as follows:

ORDERS ISSUED	2000/2001	1999/2000
The Real Estate Brokers Act		
Suspension Orders	8	5
Investigation Orders	2	0
Exemption Orders	2	5
Miscellaneous Orders	3	0
The Mortgage Dealers Act		
Exemption Orders	1	1

LEGISLATION AND POLICY

POLICY DEVELOPMENT

Real Estate section staff enforce the Commission's registration and educational policies.

In 1996, the Commission and MREA established The Real Estate Advisory Council. The Council is a non-statutory body that advises and makes non-binding recommendations to the Commission and MREA on real estate issues. The Council consists of nine members representing various stakeholders. The Registrar is the Commission's representative on Council. The Registrar reviews existing and proposed policy with the Council and recommends policy changes for Commission ratification.

The Council dealt with a number of issues since its inception, including the following:

- ▶ Changes to the licensing and education of new home builders/agents;
- ▶ Business practice directives that were subsequently adopted by the MREA and the Commission dealing with Supervision of Salespersons, Registration of Branch Offices and Unregistered Assistants;
- ▶ The Commission's policy pertaining to Private Sales Agents;
- ▶ Discussed and approved the report of the Committee that is reviewing the statutory form of offer to purchase;
- ▶ Considered mandatory use of the Property Condition Statement by MREA members;
- ▶ Regulation of real estate appraisers and home inspectors;
- ▶ Buyer agency in the real estate industry; and
- ▶ Changes to The Condominium Act recommended by the MREA.

During 2000/01 the Council:

- ▶ Reviewed ARELLO's Internet Advertising Guidelines which were subsequently adopted by the Commission and MREA;
- ▶ Reviewed proposed changes to the statutory form of offer to purchase;
- ▶ Held discussions with the Property Manager's Association and Auctioneers' Association of Manitoba regarding proposed changes to The Real Estate Brokers Act;
- ▶ Reviewed amendments to The Real Estate Brokers Act; and
- ▶ Recommended changes to membership structure of the Council to allow representation on Council by the Professional Property Manager's Association.

TRUST ACCOUNTS

INTEREST ON BROKERS' TRUST ACCOUNTS

In 1987, amendments were enacted requiring interest on brokers' trust accounts not claimed by clients to be paid to the Commission. Regulations under The Real Estate Brokers Act established The Real Estate Advisory Committee to review and recommend real estate projects for funding from the interest the Commission receives. Funds not designated for projects are paid to the Minister of Finance on March 31st of every year.

The results of the program for 2000/01 are:

RECEIPTS (In 000's)	
Received	\$456
Paid Out:	
MREA Prelicensing Education	45
Minister of Finance	411
Total	\$456

UNCLAIMED TRUST MONEY

In 1995, The Real Estate Brokers Act was amended to allow brokers to pay unclaimed trust money in their trust accounts to the Commission to clear the funds from their records. The trust money is held in trust by the Commission in the event that the rightful claimant submits a claim. On March 31st of each year the balance in the Commission's account, less a reserve for payment of future refunds, is paid to the Minister of Finance.

The results of this program for 2000/01 are:

RECEIPTS (in 000's)	
Accounted for as follows:	
Received	\$39
Paid Out: Minister of Finance	39
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PART IV INFORMATION TECHNOLOGY

OVERVIEW

Over the past fiscal year, the Commission implemented a new module to accommodate the registration of companies and individuals under the Commodity Futures Act. This new module integrates with the Manitoba Securities Commission Information System (MSCIS) and is named the Securities & Commodities Registration System (SCRS). All internal systems have been in place over a year and have been supporting the day to day operations of the Commission.

The following internal systems were in place as at March 31, 2001.

- ▶ Manitoba Securities Commission Information Systems (MSCIS)
- ▶ Securities & Commodities Registration System (SCRS)
- ▶ Real Estate Information System (REIS)
- ▶ System for Electronic Data Analysis and Retrieval (SEDAR)

These systems allow the Commission to track and store registrant and compliance information under The Securities Act, The Commodity Futures Act, The Real Estate Brokers Act and The Mortgage Dealers Act.

The Commission also has in place Microsoft Great Plains Dynamics as its in house accounting package to meet its internal and external financial reporting requirements.

PART V FINANCIAL DISCUSSION

MANAGEMENT'S DISCUSSION AND ANALYSIS

The financial statements present the operating results of the Manitoba Securities Commission, for the year ended March 31, 2001. The following discussion provides an analysis of the Commission's operations and are to be read in conjunction with the audited financial statements.

ANALYSIS OF OPERATING RESULTS

EXCESS REVENUE OVER EXPENDITURES

Excess revenue over expenditures for the year ended March 31, 2001 was \$4.7 million. This is an increase of 74% in net earnings as compared to the previous year. The increase in net earnings resulted from increases in fees for prospectus, filing activity, registration volumes and investment income.

REVENUE

Revenue increased to \$7.6 million in fiscal 2001 from \$5.2 million in fiscal 2000 in all areas as follows (see table below).

The principle sources of revenue (filing and registration fees) for the Commission in fiscal 2001 contributed a total of 85% of total revenues as compared to 83% in fiscal 2000. The principle sources of revenues are as follows:

1. **Filing Fees** are made up of fees for new and renewal prospectus filings, prospectus amendments, annual information forms and rights offerings. Overall filing fees increased by 83% over the previous year principally as a result of an increase in the prospectus filing fee and volumes.
2. **Registration Fees** are charged to brokers and individuals licensed to sell securities in Manitoba. Overall registration fees increased by 19% over the previous year due to increases in registration volumes.

Revenue (000's)	2001	% of Total	2000	% of Total	2001 % Increase From 2000
Filing Fees	\$ 3,764	50%	\$ 2,062	40%	83%
Registration Fees	2,685	35%	2,255	43%	19%
Annual Financial Statements	299	4%	278	5%	8%
Real Estate Fees	260	3%	252	5%	3%
Investment Income	167	2%	43	1%	288%
Other	401	5%	310	6%	30%
	\$ 7,576	100%	\$ 5,200	100%	46%



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Other	401	5%	310	6%	30%
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EXPENSES

The Commission budget for its expenses for fiscal 2001 was \$3.0 million. Actual expenses for the year were \$2.9 million, compared to \$2.5 million for fiscal 2000. The decrease from budget expenses to actual expenses was directly attributable to a decrease in budgeted salaries and benefits for the year.

At March 31, 2001, actual expenses were as follows:

Expenses (000's)	2001	% of Total	2000	% of Total	2001 % Increase (Decrease) From 2000
Salaries and Benefits	\$ 1,908	66%	\$ 1,705	68%	12%
Operating Expenses*	794	28%	\$ 622	25%	28%
Amortization	169	6%	146	6%	16%
Interest	-	0%	41	2%	(100%)
	\$ 2,871	100%	\$ 2,514	100%	15%

* - See Schedule of Operating Expenses in the Notes to the Financial Statements

SALARIES AND BENEFITS

Salaries and benefits increased by 12% over the previous year. The Commission had in place a staff compliment of 34 Full-Time Equivalents (FTE's) during most of fiscal year 2001, which differed from the previous year where the full compliment of staff was in place only by the end of fiscal 2000. Therefore, the full compliment of staff coupled with a 2.3% negotiated wage increase and merit increases attributed to the increase in salaries and benefits of \$204,000 compared to the previous year. Notwithstanding the above, the Commission's salaries and benefits were \$101,000 below budget for fiscal 2001.

OPERATING EXPENSES

Operating expenses increased by 28% over the previous year. This increase is directly attributable to the full compliment of staff, information systems development and a focus on education and information initiatives. Notwithstanding the above, the Commission's operating expenses were \$1,000 below budget for fiscal 2001.

AMORTIZATION

The Commission's policy is to capitalize assets purchased in excess of five hundred dollars with an estimated useful life of more than a year. The Commission amortizes its assets using the straight-line method. Amortization increased by 16% as compared to the previous year, due to the acquisition of capital assets. The Commission's amortization expense was \$4,000 below budget for fiscal 2001.

INTEREST

The Commission extinguished its long-term debt with the Province of Manitoba in April, 2000. This early repayment was completed four years ahead of schedule and resulted in \$86,000 of savings.

Therefore, interest expense decreased by 100% as compared to the previous year.

EXPENSES

The Commission budget for its expenses for fiscal 2001 was \$3.0 million. Actual expenses for the year were \$2.9 million, compared to \$2.5 million for fiscal 2000. The decrease from budget expenses to actual expenses was directly attributable to a decrease in budgeted salaries and benefits for the year.

At March 31, 2001, actual expenses were as follows:

Expenses (000's)	2001	% of Total	2000	% of Total	2001 % Increase (Decrease) From 2000
Salaries and Benefits	\$ 1,908	66%	\$ 1,705	68%	12%
Operating Expenses*	794	28%	\$ 622	25%	28%
Amortization	169	6%	146	6%	16%
Interest	-	0%	41	2%	(100%)
	\$ 2,871	100%	\$ 2,514	100%	15%

* - See Schedule of Operating Expenses in the Notes to the Financial Statements

SALARIES AND BENEFITS

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CAPITAL EXPENDITURES & LIABILITIES

Capital expenditures for the year were \$59,000. These expenditures were for Office Furniture acquired for \$54,000 and Office Equipment for \$5000. Capital expenditures were budgeted and were financed out of funds provided by operations. These expenditures were to replace desks which were older and damaged, and to acquire a trade show booth.

Accrued liabilities were \$29,000 compared to \$25,000 in fiscal 2000. At March 31, 2001 the balance represents outstanding refunds, and accrued vendor obligations. Accrued vacation and severance liabilities were \$178,000 and \$158,000 respectively as at March 31, 2001 compared to \$145,000 and \$152,000 in the previous fiscal year. The increase in accrued vacation is a direct result of increased staffing levels to 34 FTE's.

DISPOSITION OF SURPLUS OPERATING FUNDS

The Commission made quarterly payments to the Province of Manitoba totaling \$1.6 million as a disposition of surplus operating funds. The payment amount is calculated annually and is included in the Commission's business plan as a disposition of surplus operating funds in the Statement of Retained Earnings.

LIQUIDITY

Liquidity can be defined as an organizations ability to meet financial obligations as they come due. Liquidity management provides the certainty that funds will be available to honour all commitments and involves continuous forecasting and monitoring of expected cash flows. The Commission requires liquidity principally to finance its operations and capital expenditures, its objective is to have sufficient funds available to maintain its operations, without impairment, should revenues decrease below expenses. As at March 31, 2001 the Commission has accumulated \$670,000 in its reserve fund, to accommodate for any unforeseen changes in cash flows.

These funds are invested with the Province of Manitoba Treasury Division and allows the Commission the flexibility to access these funds when needed.

OUTLOOK 2001/2002

The Commission has budgeted revenue of \$6.7 million and expenses of \$3.4 million, with capital expenditures of \$91,000 for fiscal 2002. The Commission's revenue is subject to variability that could affect the achievement of budgeted revenues, which are outside of the control of the Commission.

The Commission has budgeted for a Supertext Case Management system similar to the one being used by the BCSC and ASC. This system will assist the both the Enforcement and Legal department in the management of its case load. This system will provide these departments with better document control and retrieval, case preparation and assist in disclosure requirements. It is anticipated that this system will reduce both time and costs in the preparation of cases.

RESPONSIBILITY FOR FINANCIAL REPORTING

The Commission's management is responsible for preparing the financial statements and other financial information in the Annual Report. These financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles. The financial statements include amounts that are based on management's best estimates and judgements. The Commission's financial statements have been audited by BDO Dunwoody, independent external auditors.

The Commission maintains accounting and internal control systems to provide reasonable assurance that its financial information is reliable and accurate and that its assets are adequately protected.

The Commission's management meets regularly to review the financial statements and accounting practices. The auditors have free and full access to management, if required to discuss results of their audit and their views on the adequacy of internal controls and the quality of financial reporting.

On behalf of management,

Donald G. Murray

Chairman and C.E.O.

John Hudohmet

Controller

MANITOBA SECURITIES COMMISSION

AN AGENCY OF THE SPECIAL OPERATING

AGENCIES FINANCING AUTHORITY

PROVINCE OF MANITOBA

FINANCIAL STATEMENTS

March 31, 2001

MANITOBA SECURITIES COMMISSION

**AN AGENCY OF THE SPECIAL OPERATING AGENCIES FINANCING AUTHORITY
PROVINCE OF MANITOBA**

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AUDITORS' REPORT

TO THE SPECIAL OPERATING AGENCIES FINANCING AUTHORITY:

We have audited the balance sheet of MANITOBA SECURITIES COMMISSION, AN AGENCY OF THE SPECIAL OPERATING AGENCIES FINANCING AUTHORITY, PROVINCE OF MANITOBA as at MARCH 31, 2001 and the statements of income, retained earnings, reserve funds and cash flows for the year then ended. These financial statements are the responsibility of the Commission's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Commission as at MARCH 31, 2001 and the results of its operations and cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Winnipeg, Manitoba
May 15, 2001

CHARTERED ACCOUNTANTS

BALANCE SHEET (IN THOUSANDS)

March 31, 2001

	2001	2000
ASSETS		
CURRENT		
Cash and short-term deposits (Note 3)	\$ 4,065	1,479
Accounts receivable (Note 4)	26	6
Prepaid expenses	11	21
	4,102	1,506
RESTRICTED SHORT-TERM DEPOSITS (Note 5)	670	512
RECEIVABLE FROM THE PROVINCE OF MANITOBA (Note 6)	269	269
CAPITAL ASSETS (Notes 2 and 7)	632	741
	5,673	3,028
LIABILITIES		
CURRENT		
Accounts payable (Note 11)	163	
Accrued liabilities	29	25
Accrued vacation entitlements (Note 8)	175	145
Accrued salaries and benefits	51	32
Current portion of long-term debt		598
	418	800
SEVERANCE PAY LIABILITY (Note 10)	164	167
PENSION LIABILITY (Note 11)		75
	582	1,042
COMMITMENTS (Note 13)		
EQUITY		
RESERVE FUND (Note 12) (Page 4)	670	435
RETAINED EARNINGS (Page 4)	4,421	1,551
	5,091	1,986
	\$ 5,673	3,028

STATEMENT OF INCOME (IN THOUSANDS)

Year Ended March 31, 2001

	2001	2000
REVENUE		
Fees	\$ 7,401	5,156
Interest	167	43
Miscellaneous	8	1
	7,576	5,200
EXPENSES		
Salaries and benefits	1,908	1,705
Operating expenses (Page 10)	794	622
Amortization - capital assets (Note 2)	169	146
Interest		41
	2,871	2,514
NET EARNINGS FOR YEAR (Page 4)	\$ 4,705	2,686

BALANCE SHEET (IN THOUSANDS)

March 31, 2001

		2001	2000
ASSETS			
CURRENT			
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Salaries and benefits	1,908	1,705
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Interest		41
	2,871	2,514
 NET EARNINGS FOR YEAR (Page 4)	 \$ 4,705	 2,686

STATEMENT OF RETAINED EARNINGS (IN THOUSANDS)

Year Ended March 31, 2001

		2001	2000
RETAINED EARNINGS, BEGINNING OF YEAR	\$	1,551	
Net earnings for year (Page 3)		4,705	2,686
Disposition of surplus operating funds		(1,600)	(700)
Allocation to Reserve Fund		(235)	(435)
RETAINED EARNINGS, END OF YEAR (Page 2)	\$	4,421	1,551

STATEMENT OF RESERVE FUNDS (IN THOUSANDS)

Year Ended March 31, 2001

		2001	2000
BALANCE, BEGINNING OF YEAR	\$	435	
Allocation from retained earnings		235	435
BALANCE, END OF YEAR (Page 2)	\$	670	435

STATEMENT OF CASH FLOWS (IN THOUSANDS)

Year Ended March 31, 2001

	2001	2000
CASH FLOWS FROM OPERATING ACTIVITIES		
Net earnings for year	\$ 4,705	2,686
Adjustment for		
Amortization - capital assets	169	146
	4,874	2,832
Changes in non-cash working capital		
Accounts receivable	(20)	(6)
Receivable from the Province of Manitoba		(254)
Prepaid expenses	10	(21)
Accounts payable	163	
Accrued liabilities	4	25
Accrued vacation entitlements	30	145
Accrued salaries and benefits	19	32
Pension liability	(75)	75
Severance pay liability	(3)	152
	128	148
	5,002	2,980
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of capital assets	(60)	(887)
Transfer to restricted short-term deposits	(158)	(512)
	(218)	(1,399)
CASH FLOWS FROM FINANCING ACTIVITIES		
Disposition of surplus operating funds	(1,600)	(700)
Proceeds of long-term debt		728
Repayment of long-term debt	(598)	(130)
	(2,198)	(102)
NET INCREASE IN CASH AND CASH EQUIVALENTS	2,586	1,479
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	1,479	
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 4,065	1,479

STATEMENT OF RETAINED EARNINGS (IN THOUSANDS)

Year Ended March 31, 2001

	2001	2000
RETAINED EARNINGS, BEGINNING OF YEAR	\$ 1,551	
Net earnings for year (Page 3)	4,705	2,686
Disposition of surplus operating funds	(1,600)	(700)
Allocation to Reserve Fund	(235)	(435)
RETAINED EARNINGS, END OF YEAR (Page 2)	\$ 4,421	1,551

STATEMENT OF RESERVE FUNDS (IN THOUSANDS)

Year Ended March 31, 2001

	2001	2000
BALANCE, BEGINNING OF YEAR	\$ 435	
Allocation from retained earnings	235	435
BALANCE, END OF YEAR (Page 2)	\$ 670	435

STATEMENT OF CASH FLOWS (IN THOUSANDS)

Year Ended March 31, 2001

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1. NATURE OF ORGANIZATION

Effective April 1, 1999 the Lieutenant Governor in Council designated the Manitoba Securities Commission as a special operating agency under The Special Operating Agencies Financing Authority Act (C.C.S.M. c.S185) by Order in Council No. 144/1999. The Order also gave approval to the Special Operating Agencies Financing Authority and the Minister of Consumer and Corporate Affairs, being the Minister responsible for the Commission, to enter into a management agreement with respect to the Agency.

A management agreement between the Financing Authority and the Minister of Consumer and Corporate Affairs assigns responsibility to manage the assets transferred to the Manitoba Securities Commission in delivering regulated services to clients.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of reporting

The financial statements have been prepared in accordance with generally accepted accounting principles.

Capital assets

Capital assets are recorded at cost and amortized over their estimated lives as follows:

Office equipment	- 20% straight-line
Furniture and fixtures	- 20% straight-line
Leasehold improvements	- 10% straight-line
Computer hardware	- 20% straight-line
Computer software	- 20% straight-line

The half-year rule is used in the years of acquisition.

Revenue recognition

Fees and cost recoveries are recognized when received. Investment income is recorded on the accrual basis.

3. CASH AND SHORT-TERM DEPOSITS

The Commission invests all surplus cash into short-term deposits with the Province's Treasury Board; these deposits are made up of 30, 60 and 90 day callable term deposits.

NOTES TO FINANCIAL STATEMENTS (IN THOUSANDS)

March 31, 2001

4. ACCOUNTS RECEIVABLE

	2001	2000
Accrued interest	\$ 23	
Employee computer purchases	3	3
Trade		3
	\$ 26	6

NOTES TO FINANCIAL STATEMENTS (IN THOUSANDS)

March 31, 2001

5. RESTRICTED SHORT-TERM DEPOSITS

	2001	2000
Reserve Fund	\$ 670	435
Employee Pension Benefits (Note 11)	77	
	\$ 670	512

The Commission maintains separate short-term deposits with the Province of Manitoba to fund liabilities arising from the Reserve Fund (Note 12).

6. RECEIVABLE FROM THE PROVINCE OF MANITOBA

The receivable from the Province of Manitoba is made up of vacation and severance pay entitlement earned by employees of the Commission prior to creation of the SOA as at April 1, 1999.

7. CAPITAL ASSETS

	2001		2000	
	Cost	Accumulated Amortization	Cost	Accumulated Amortization
Office equipment	\$ 11	2	6	
Furniture and fixtures	103	14	48	2
Leasehold improvements	113	12	113	
Computer hardware	117	46	117	23
Computer software	603	241	603	121
	947	315	887	146
Cost less accumulated amortization	\$ 632		741	

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Computer hardware	117	46	117	23
Computer software	603	241	603	121
	947	315	887	146
Cost less accumulated amortization	\$	632		741

8. ACCRUED VACATION ENTITLEMENTS

The Commission follows the policy of the Department of Finance to recognize the vacation entitlement liability accumulated to March 31, 1999. The liability at this date is offset by a receivable from the Province and was \$117 as at March 31, 1999. Any subsequent changes to the entitlement are reflected as a current year expense to the Commission. As at March 31, 2001 there was an increase to the entitlement in the amount of \$36. The accrued vacation entitlement was \$175 as of March 31, 2001 (2000 - \$145).

9. FINANCIAL ARRANGEMENTS

Long term financing for significant capital purchases are provided through the Special Operating Agencies Financing Authority. The Commission repaid the entire balance of \$598 on April 1, 2000.

10. SEVERANCE PAY LIABILITY

Effective April 1, 1999, the Commission began recording accumulated severance pay benefits for its employees. The estimate of the liability was based on the method of calculation set by the Province.

The Province has accepted responsibility for the severance benefits accumulated by the Agency's employees to March 31, 1999. Accordingly, the opening severance pay liability balance as at April 1, 1999 calculated at \$137 was completely offset by a receivable from the Province. There are no fixed terms for payment.

An actuarial valuation report of the Agency's severance as at March 31, 2000 was recently completed. The liability as at March 31, 2000 was restated to \$167 and the receivable from the Province was restated to \$152 as a result of the actuarial valuation. There was no effect on the severance benefit expense for the year ended March 31, 2000.

The report provides a formula to update the liability on an annual basis. In accordance with the formula, the Agency's actuarial liability has been calculated to be \$164 as at March 31, 2001.

11. EMPLOYEE PENSION BENEFITS

Employees of the Commission are eligible for pension benefits in accordance with the provision of The Civil Service Superannuation Act. The Agency has recorded an obligation for the pension benefits earned by their employees from the date of designation as an SOA. The methodology for calculating the liability has been determined in conjunction with the Province of Manitoba, which accepts responsibility for pension liability for prior service, as well as for any variance resulting from the calculation.

The Agency deposited an amount equal to the employer's share of the pension liability in a separate investment account.

An actuarial valuation report of the Agency's pension liability to its employees from the date of designation as a SOA was recently completed. The report calculated the pension liability as at March 31, 2000 and provided a formula to update the liability on an annual basis. In accordance with the formula, the Agency's actuarial liability has been calculated on an indexed basis to be \$181 as at March 31, 2001 (2000 - \$75).

As at March 31, 2001, the Province has assumed responsibility for administering the SOA's pension liabilities. Accordingly, the pension liability net of the deferred contribution to the Province was reclassified as Accounts Payable. The Agency will transfer funds equal to the net amount to the Province in 2001 - 2002.

12. RESERVE FUND

The Commission has established a reserve fund to finance extraordinary expenses for isolated and unanticipated purposes that are regulatory in nature, and for changes in market activity that have an effect on revenues. The intent is to fund the reserve, through an annual charge to retained earnings, over four years, until the fund reaches an accumulated balance of \$1 million.

13. LEASE COMMITMENT

The Commission has not entered into a lease agreement with the Province of Manitoba for rental of facilities at 405 Broadway. Occupancy charges for the year ending March 31, 2001 are \$120.

14. PRIOR YEARS FIGURES

The prior years figures have been restated to conform with current year presentation. The net earnings remained unchanged.

SCHEDULE OF OPERATING EXPENSES (IN THOUSANDS)

Year ended March 31, 2001

	2001	%	2000	%
Contract services	\$ 313	40	220	36
CSA Initiatives	2			
Education / Information initiatives	20	3	2	
Miscellaneous	12	2	41	7
Office materials and supplies	107	13	71	11
Premises	120	15	116	19
Professional membership and dues	6	1	7	1
Research resources	32	4	21	3
Professional services	65	8	53	9
Staff development	15	2	8	1
Telecommunications	51	6	44	7
Travel	51	6	39	6
	\$ 794	100	622	100



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Telecommunications	51	6	44	7
Travel	51	6	39	6
	\$ 794	100	622	100

SCHEDULE OF PUBLIC SECTOR COMPENSATION DISCLOSURE (IN THOUSANDS)

Year ended March 31, 2001

EMPLOYEE	TITLE	COMPENSATION
Don Murray	Chairman & CEO	\$ 112
Bob Bouchard	CAO & Director of Capital Markets	82
Nancy Martin	Assistant Legal Counsel	78
Doug Brown	Director of Legal & Enforcement & Secretary to the Commission	75
Jim Storsley	Registrar - Real Estate	71
Glenn Lillies	Compliance Officer	61
Chris Besko	Assistant Legal Counsel	59
John Hudohmet	Controller	52

The Public Sector Compensation Disclosure Act requires all publicly funded bodies to disclose compensation to any employee or board member when such compensation exceeds \$50 per annum.



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Year ended March 31, 2001

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